

CONNECTICUT VALLEY ELECTRIC COMPANY

Fuel Adjustment Clause and Purchased Power Cost Adjustment

Order Continuing December 31, 1997 FAC/PPCA Rates
on a Temporary Basis

O R D E R N O. 23,378

December 30, 1999

APPEARANCES: Ransmeier and Spellman by Dom S. D'Ambruoso and John Alexander, Esquires, on behalf of Connecticut Valley Electric Company; Sarah Knowlton, Esq. of McLane, Graf, Raulerson and Middleton on behalf of the City of Claremont; Kenneth Traum of the Office of Consumer Advocate on behalf of Residential Ratepayers; Thomas C. Frantz and James Cunningham for the Staff of the New Hampshire Public Utilities Commission and Gary Epler, Esq. for the Commissioners.

I. PROCEDURAL HISTORY

On December 1, 1999, Connecticut Valley Electric Company (CVEC or the Company) filed a petition with the Commission for a change in its Fuel Adjustment Clause and Purchased Power Cost Adjustment rates effective on all bills rendered on and after January 1, 2000. The filing also included an adjustment to the rates it pays Qualifying Facilities providing power to CVEC under short-term avoided cost rates. Pursuant to N.H. Admin. Rules PUC 201.05, CVEC proposes a waiver to N.H. Admin. Rules Puc 1203.05(a) to allow rates to change on a bills rendered basis on January 1, 2000.

In support of CVEC's petition, the Company pre-filed the testimony and exhibits of three witnesses: Charles A. Watts, Consultant - Power Engineering, Finance and Pricing at Central

Vermont Public Service Corporation (CVPS), CVEC's parent company; Robert J. Amelang, Senior Consultant - Power Engineering at CVPS; and C.J. Frankiewicz, Financial Analysis Coordinator for CVPS.

A Motion to Intervene was filed by the City of Claremont (Claremont) on December 13, 1999. On December 15, 1999, Claremont filed a Motion for Prudency Review and Reconciliation Mechanism. CVEC filed an Objection to Claremont's motion on prudence and reconciliation on December 21, 1999. A duly noticed hearing was held on December 22, 1999. Claremont's motion for intervention was granted at the hearing.

II. POSITIONS OF THE PARTIES AND STAFF

A. CVEC

CVEC proposes to recover through the 2000 FAC and PPCA all its fuel and purchased power costs, including the current alleged under-recovery and its forecasted 2000 costs. CVEC states that its currently effective FAC and PPCA rates are not cost-based rates and will cause CVEC to under-collect its 1999 fuel and purchased power costs. On a combined FAC/PPCA basis, CVEC estimates that it will under-recover \$585,521 of RS-2 costs by the end of December 1999 due to Commission Order No. 23,214 (May 17, 1999). That order reduced the FAC and PPCA rates back to the levels in effect on December 31, 1997 for all bills rendered on

and after June 1, 1999.¹ If the December 31, 1997 rates remain in effect for 2000, CVEC estimates that the under-collection for 2000 costs will exceed \$1,185,000 and will leave CVEC with a net loss for the year and insufficient cash to pay its bills. Ex. 8 at 4. CVEC proposes to increase rates by 9.7 percent, or \$1,890,537, on an annual basis. CVEC states that the combined FAC/PPCA rate change would have been a decrease in rates of 4.8 percent absent the implementation of the December 31, 1997 rate freeze.²

Due to the large under-recovery CVEC is proposing to recover in its 2000 FAC/PPCA rates, CVEC is willing to consider an alternative mechanism to recover those costs that would minimize the bill impacts of the petition. Absent the recovery of the accumulated deferrals, CVEC states that recovery of its 2000 FAC/PPCA costs would result in a rate increase of 6.1

¹ The basis for setting CVEC's FAC and PPCA rates at the December 31, 1997 levels is the Commission's finding in DR 97-241 that CVEC was imprudent for not terminating the RS-2 contract with CVPS and procuring lower cost power for its customers. See Order No. 22,815 (December 31, 1997). Order Nos. 23,168 and 23,214 explain the history of how and why the rates changed from December 31, 1997 until they were lowered back to the December 31, 1997 levels.

² In a separate filing, CVEC has requested a rate redesign that would eliminate the seasonal base rate design it currently has in place effective for all bills rendered on and after January 1, 2000. The effect of removing the seasonal component of its base rates would have a minimal effect on the proposed FAC/PPCA rates, but would result in a 13 percent rate reduction under CVEC's proposed FAC/PPCA rates or a 21 percent decrease on January 1, 2000 if the current FAC/PPCA rates stay in effect.

percent. A typical residential customer who uses 500 kWh per month would see a monthly bill increase of \$5.50.

1. Fuel Adjustment Clause

CVEC provided its forecast of 2000 energy costs and revenues as well as a reconciliation of actual costs and revenues for 1998 and through October 1999 with estimates for November and December 1999. Based on its current forecasted under-recovery of FAC costs, \$384,580 at year-end 1999, and forecasted RS-2 and Small Power Producer costs for 2000 of \$6,959,819, CVEC estimates total year 2000 fuel costs of \$7,344,399. CVEC cites two main reasons for the larger than anticipated 1999 under-collection: 1) the reduction in the FAC rate by the Commission to the FAC rate in effect on December 31, 1997 effective with all billings on and after June 1, 1999; and, 2) the higher than forecast RS-2 energy costs during 1999.

For calculation of the FAC rate, CVEC subtracts the 1999 estimated base energy revenues of \$5,964,367 from the total FAC costs including under-collections, taxes and interest, which leaves \$1,380,032 to be collected through the year 2000 FAC rate. CVEC estimates year 2000 retail sales of 171,867,000 kWh, resulting in an FAC rate of \$0.0080 per kWh, an increase from the currently effective FAC rate of \$0.0059 per kWh, but lower than the \$0.0082 rate proposed by CVEC for 1999. The calculation of the rate excludes the kWh sales associated with retail pilot

customers.

The proposed FAC rate would increase rates for a residential customer who uses 500 kWh per month by \$1.06 based on the current rate design.

2. Purchased Power Cost Adjustment

The PPCA includes the estimated cost of capacity to CVPS for the year 2000 which are then allocated to CVEC on the basis of the estimated monthly loads of CVEC coincident with the monthly reserve-required loads of CVPS as computed under the old NEPOOL 70/30 formula, whereby 70% of CVPS system capability responsibility was determined on the CVPS system coincident peak, and 30% on the NEPOOL coincident peak. The estimated costs of capacity include purchased capacity, transmission by others, and CVPS' own generation, transmission and distribution. The estimated capacity costs under the RS-2 rate schedule and SPP capacity costs are added to any under- or over-recoveries from the previous PPCA period and adjusted for interest and franchise taxes. Base capacity revenues are then subtracted from the total capacity costs to yield the net amount of purchased power capacity costs to be recovered from CVEC's customers over the year through the PPCA. The costs are neutralized for pilot program costs and revenues and divided by estimated year 2000 kWh sales to provide the PPCA rate for 2000.

CVEC forecasts 2000 RS-2 capacity costs of \$8,830,869

and SPP capacity costs of \$32,028. With interest and franchise tax included, the total capacity costs are \$8,949,452. CVEC's estimated 1999 under-recovery of \$303,968 is added to the \$8,949,452 to yield the total estimated capacity costs of \$9,253,420. Base capacity revenues of \$7,328,366 are subtracted which results in \$1,925,054, which CVEC proposes to recover through its year 2000 PPCA. Based on year 2000 forecasted sales of 171,867,000 kWh, CVEC proposes a PPCA rate for 2000 of \$0.0112 per kWh, an increase of \$0.0089 per kWh over the currently effective PPCA rate - a rate CVEC does not consider cost-based. The proposed PPCA rate results in an increase of \$1,529,616 or 7.9 percent on an annualized basis over rates currently in effect. CVEC states that the proposed rate is lower than what CVEC had proposed last year for its 1999 PPCA.

For a residential customer using 500 kWh per month, the proposed PPCA rate would increase the customer's monthly bill by \$4.46.

B. Claremont

Claremont did not file testimony, but stated that the purchase of power by CVEC from CVPS under the RS-2 contract has been found by the Commission to be imprudent and that Claremont continues to view purchases by CVEC from CVPS under the RS-2 contract as imprudent. Claremont recommends that the Commission keep the rates at the December 31, 1997 levels currently in

effect and requests that the Commission, pursuant to RSA 378:30, require CVEC to post a bond if the Commission were to grant CVEC's request to increase rates.

Claremont also requests a reconciliation mechanism be employed pending the final outcome of the federal court litigation.

C. OCA

OCA did not file testimony but supports the continued billing of the December 31, 1997 rates. OCA questioned CVEC witnesses about the sales forecast, its stranded cost proceeding at the Federal Energy Regulatory Commission and what effects the Company's cash flow position is having on operations.

D. Staff

Staff did not file testimony, but questioned CVEC on a number of matters, including its sales forecast, the increase in Hydro-Quebec costs due to the elimination of a discount off the capacity costs in the Schedule 3 contract, the alliance to market wholesale power between CVPS and Virginia Power which was formed in 1998 and recently dissolved, and the inclusion of legal expenses in the RS-2 costs related to Docket No. ER 98-1440 at the Federal Energy Regulatory Commission (FERC), CVPS' filing to recover through an exit fee stranded costs associated with the loss of CVEC load due to retail choice in New Hampshire. Staff recommends that imprudent costs not be allowed to be recovered

and supports the continued billing of the December 31, 1997 rates.

III. COMMISSION ANALYSIS

1. Claremont's Motion on Prudence Review and Reconciliation

Claremont requests that the Commission establish a mechanism for review of CVEC's prudence for the power purchases it is making for year 2000. Claremont states that because CVEC is seeking recovery of 2000 FAC and PPCA costs it raises the issue of prudence concerning its decision to continue purchasing power from its parent, CVPS, at costs Claremont asserts are far in excess of power prices it could procure in an arm's length wholesale market transaction. Claremont also cites to the pending federal court litigation regarding the Commission's limited ability at this time to take final action on prudence. Claremont, with the agreement of the OCA, urges the Commission to establish a mechanism to review CVEC's purchasing decision and to reconcile CVEC's rates at a later time pending the outcome of the federal litigation.

CVEC disagrees. It believes that such a review would be premature, speculative, and unnecessarily burdensome at this time. CVEC argues that it anticipates that the federal court will provide the Commission with the necessary guidance concerning any reconciliations due to past over-collections or under-collections. Furthermore, CVEC believes that Commission

Order No. 22,815, finding CVEC imprudent for purchases under the RS-2 rate schedule, resulted from a procedurally deficient process and that it was made in violation of the Federal Court's injunction. For these reasons, CVEC requests that the Commission reject Claremont's motion concerning prudence and a reconciliation mechanism.

We will take Claremont's motion under advisement and defer action on it, and put the parties on notice that, pending the outcome of the federal court proceedings, a prudence proceeding and reconciliation mechanism may be opened at a later time.

2. FAC and PPCA Rates

We have reviewed CVEC's petition and for the reasons stated below will deny the Company's request to increase its FAC and PPCA rates above those currently in effect, and we will also deny its request to vacate our finding of imprudence in Order No. 22,815 (December 31, 1997). At this time a final order on CVEC's rehearing request and other matters noticed in Order Nos. 22,815 and 22,838 (January 20, 1998) (Order Addressing Motions for Rehearing) remains pending. Nothing in the record before us supports any adjustment to the rates currently in effect. We will, however, reserve our authority to open a review of the year 2000 fuel and purchased power capacity costs under the RS-2 schedule as well as the need for any possible true-up of costs,

if necessary, based on the outcome of the federal court proceedings.

We also note that CVEC's argument, contained in Mr. William J. Deehan's filing letter of November 30, 1999, and repeated in the company's December 21, 1999 Objection to the City of Clairmont's Motion for Prudency Review and Reconciliation Mechanism, that the Commission's Order No. 22,986 (July 22, 1998) vacated its previous finding of imprudence is incorrect. Order No. 22,986 in Docket No. DR 96-150, our restructuring docket, only vacated the directive to the utilities, including CVEC, to provide notice of termination of their wholesale power contracts as a part of their restructuring obligations. Our actions in these FAC and PPCA proceedings are unrelated to the electric restructuring docket, and concern only the company's traditional regulated monopoly utility obligation to exercise prudence in obtaining supply, and the Commission's longstanding obligation under RSA 378:7 to insure that resulting rates are just and reasonable. *See Appeal of Sinclair Machine Products, Inc.*, 126 N.H. 822, 834 (1985) ("The wholesale rate must be justified by the utility as the product of reasonable efforts to secure the lowest cost in light of appropriate alternatives available to the company.").

In regard to Staff's concern about the Commission's ability to audit RS-2 regulatory commission expenses, we find

that the Commission's investigative powers and authority pursuant to RSA 366:3 (Contracts between Utilities and Affiliates) and RSA 366:5 (Investigation and Proof) grant us the ability to review the regulatory commission expenses to ensure that the amounts proposed for recovery are accurate and pertain only to CVEC. We direct CVEC to work with Staff in order to ensure a timely and efficient audit schedule.

Additionally, we will waive the application of N.H. Admin. Rules, Puc 1203.05(a), which requires generally that rate changes be implemented on a service-rendered basis, and will allow CVEC to continue billing the currently effective FAC and PPCA rates on a bills-rendered basis. This waiver, pursuant to Puc 201.05, produces a result consistent with the principles embodied in Puc 1203.05(b), which sets forth exceptions for allowing rate changes on a bills-rendered basis, and is in the public interest because it eliminates customer confusion and reduces administrative costs.

Finally, we note herein that we are approving today CVEC's request in Docket No. DE 99-187 to remove the seasonal component of base rates which will result in no change to the currently effective FAC and PPCA rates and annual revenue recoveries, but will result in a decrease in January bills of approximately 21 percent.

Based on the foregoing, it is hereby

ORDERED, that Fuel Adjustment Clause rate of \$0.0059

per kWh and the Purchased Power Cost Adjustment rate of \$0.0023 per kWh, currently effective on a temporary basis, remain in effect and subject to further investigation and reconciliation, until otherwise ordered by this Commission; and it is

FURTHER ORDERED, that Connecticut Valley Electric Company file tariff pages in conformance with this order no later than January 7, 2000.

By order of the Public Utilities Commission of New
Hampshire this thirtieth day of December, 1999.

Douglas L. Patch
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Thomas B. Getz
Executive Director and Secretary